



Mara G. Mann, CPA
Certified Public Accountant

May 18, 2023

Pastor Steve Hanna
Arizona Baptist Children's Services
1779 N. Alvernon
Tucson, Arizona 85712

Dear Mr. Hanna:

Enclosed please find the audited financial statements of ABCS for the years ended December 31, 2022 and 2021.

If you have any questions, please don't hesitate to call.

Sincerely,

Mara G. Mann, CPA

Enclosures

ARIZONA BAPTIST CHILDREN'S SERVICES

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

Arizona Baptist Children's Services

AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Arizona Baptist Children's Services

Opinion

We have audited the accompanying financial statements of Arizona Baptist Children's Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arizona Baptist Children's Services as of December 31, 2022 and 2021, and the change in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report. We are required to be independent of Arizona Baptist Children's Services, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Baptist Children's Services ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arizona Baptist Children's Services' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Baptist Children's Services' ability to continue as a going concern for a reasonable period of time.

Opinion

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.


Mara G. Mann, CPA
Phoenix, AZ
May 18, 2023



Arizona Baptist Children's Services
STATEMENTS OF FINANCIAL POSITION
As of December 31,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Current Assets:						
Cash	\$ 114,950	\$ 20,973	\$ 135,923	\$ 435,180	\$ 359,992	\$ 795,172
Accounts receivable, net - Note 2	327,060		327,060	394,014		394,014
Promises to give - Note 3	142,822		142,822	118,112		118,112
Total Current Assets	584,832		605,805	947,306		1,307,298
Investments - Note 4	3	1,160,720	1,160,723	86,451	908,608	995,059
Property and Equipment - Note 5	4,266,748		4,266,748	4,415,344		4,415,344
Beneficial Interests In A Trust - Note 6	110,154		110,154	220,962		220,962
Other Assets	5,000		5,000	5,000		5,000
Total Assets	\$ 4,966,737	\$ 1,181,693	\$ 6,148,430	\$ 5,675,063	\$ 1,268,600	\$ 6,943,663
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Line of credit - Note	\$ 276,936		\$ 276,936			
Accounts payable	185,990		185,990	\$ 163,900		\$ 163,900
Accrued payroll and taxes	80,945		80,945	109,359		109,359
Accrued paid time off	180,736		180,736	195,396		195,396
Current portion long-term debt - Note 12	-		-	24,000		24,000
Total Current Liabilities	724,607		724,607	492,655		492,655
Long-Term Debt - Note 12	208,000		208,000	206,000		206,000
	932,607		932,607	698,655		698,655
NET ASSETS	4,034,130	\$ 1,181,693	5,215,823	4,976,408	\$ 1,268,600	6,245,008
Total Liabilities and Net Assets	\$ 4,966,737	\$ 1,181,693	\$ 6,148,430	\$ 5,675,063	\$ 1,268,600	\$ 6,943,663

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services
 STATEMENTS OF ACTIVITIES
 For The Years Ending December 31,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
CHANGES IN NET ASSETS						
Support and Revenue:						
State contracts	\$ 3,765,091		\$ 3,765,091	\$ 4,831,635		\$ 4,831,635
Public contributions	1,984,898		1,984,898	1,711,698		1,711,698
Paycheck Protection Program - Note 14			-	64,101		64,101
Private care	189,068		189,068	147,909		147,909
In-kind contributions	3,091,838		3,091,838	2,656,844		2,656,844
Other revenue	144,090		144,090	141,728		141,728
Net assets released from restriction	510	\$ (510)		299	\$ (299)	
Total Support and Revenue	9,175,495	(510)	9,174,985	9,554,214	(299)	9,553,915
Expenses:						
Program services	7,872,723		7,872,723	8,347,309		8,347,309
Supporting services - Administration	2,126,117		2,126,117	2,331,374		2,331,374
Total Expenses	9,998,840		9,998,840	10,678,683		10,678,683
(Decrease) in Net Assets Before Other Income	(823,345)		(823,855)	(1,124,469)		(1,124,768)
Other (Expense) Income - Note 9	(118,933)	\$ (86,397)	(205,330)	(12,243)	\$ 113,081	100,838
(Decrease) Increase in Net Assets	(942,278)	(86,397)	(1,029,185)	(1,136,712)	113,081	(1,023,930)
NET ASSETS BEGINNING OF YEAR	4,976,408	1,268,600	6,245,008	6,113,120	1,155,818	7,268,938
NET ASSETS END OF YEAR	\$ 4,034,130	\$ 1,181,693	\$ 5,215,823	\$ 4,976,408	\$ 1,268,600	\$ 6,245,008

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2022

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	Total
Salaries and wages	\$ 1,415,283	\$ 658,457	\$ 851,577	\$ 2,925,317	\$ 1,288,876	\$ 4,214,193
Payroll taxes	114,782	53,398	51,854	220,034	94,718	314,752
Employee benefits	324,768	135,886	133,383	594,037	261,304	855,341
Advertising	26	1,702	7,215	8,943	34,600	43,543
Bad debt expense					12,727	12,727
Communications	19,704	10,489	21,345	51,538	18,006	69,544
Depreciation	61,265	8,933	49,471	119,669	28,926	148,595
Equipment rental	21,874	7,932	7,917	37,723	8,938	46,661
Insurance					142,357	142,357
Occupancy (rent, utilities)	51,137	26,006	71,706	148,849	23,684	172,533
Other	1,598	2,500	21,404	25,502	86,645	112,147
Postage	175	183	1,036	1,394	10,760	12,154
Printing						
Professional services					8,261	8,261
Purchased services	45,320	57,020	31,440	133,780	35,493	169,273
Repairs and maintenance	6,513	7,095	40,539	54,147	42,920	97,067
Supplies	6,075	2,819	3,145,354	3,154,248	5,649	3,159,897
Vehicle costs	360,062	13,235	24,245	397,542	22,253	419,795
	<u>\$ 2,428,582</u>	<u>\$ 985,655</u>	<u>\$ 4,458,486</u>	<u>\$ 7,872,723</u>	<u>\$ 2,126,117</u>	<u>\$ 9,998,840</u>

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ending December 31, 2021

	Program Services				Supporting Services -	
	Parent Aide	Foster Care	All Other Programs	Total	Administration	Total
Salaries and wages	\$ 1,952,534	\$ 764,765	\$ 815,016	\$ 3,532,315	\$ 1,432,358	\$ 4,964,673
Payroll taxes	172,203	67,948	55,897	296,048	110,143	406,191
Employee benefits	424,359	166,679	120,009	711,047	244,309	955,356
Advertising	39	3,657	5,332	9,028	31,244	40,272
Bad debt expense					308	308
Communications	25,363	12,653	22,224	60,240	18,367	78,607
Depreciation	61,901	8,933	48,424	119,258	26,061	145,319
Equipment rental	19,619	7,181	7,157	33,957	7,680	41,637
Insurance					137,408	137,408
Occupancy (rent, utilities)	47,830	22,267	68,620	138,717	22,405	161,122
Other	1,983	11,553	14,584	28,120	92,288	120,408
Postage	267	212	6,259	6,738	11,900	18,638
Printing	22		22	44	597	641
Professional services					8,216	8,216
Purchased services	38,264	36,825	21,554	96,643	45,217	141,860
Repairs and maintenance	16,820	39,306	85,485	141,611	104,629	246,240
Supplies	8,949	10,080	2,689,015	2,708,044	9,743	2,717,787
Vehicle costs	430,918	18,382	16,199	465,499	28,501	494,000
	<u>\$ 3,201,071</u>	<u>\$ 1,170,441</u>	<u>\$ 3,975,797</u>	<u>\$ 8,347,309</u>	<u>\$ 2,331,374</u>	<u>\$ 10,678,683</u>

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

STATEMENTS OF CASH FLOWS

For The Years Ending December 31,

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) in Net Assets	\$ (1,029,185)	\$ (1,023,930)
Adjustments to reconcile the (decrease) in net assets to net cash (used) by operating activities:		
Bad debt expense	12,727	308
Depreciation	148,595	145,319
Split-interest agreements	110,808	19,308
Realized losses (gains) on investments	(1,032)	(62,427)
Unrealized (gains) losses on investments	124,761	35,160
Decrease (increase) in:		
Accounts receivable	66,954	115,001
Promises to give	(24,710)	446,229
(Decrease) increase in:		
Accounts payable	22,090	(30,090)
Accrued payroll and taxes	(28,414)	(22,964)
Accrued paid time off	(14,660)	(11,964)
Net Cash (Used) By Operating Activities	<u>(612,066)</u>	<u>(390,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	470,223	896,113
Purchases of investments	(772,342)	(1,121,182)
Proceeds from sales of property		
Purchases of property and equipment		(33,855)
Net Cash (Used) By Investing Activities	<u>(302,119)</u>	<u>(258,924)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit, net	276,936	
Principal payments of long-term debt	(22,000)	(10,000)
Net Cash Provided (Used) By Financing Activities	<u>254,936</u>	<u>(10,000)</u>
(DECREASE) IN CASH	<u>(659,249)</u>	<u>(658,974)</u>
CASH AT THE BEGINNING OF YEAR	<u>795,172</u>	<u>1,454,146</u>
CASH AT END OF YEAR	<u>\$ 135,923</u>	<u>\$ 795,172</u>

The accompanying notes are an integral part of these financial statements.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

PURPOSE AND ORGANIZATION

Arizona Baptist Children's Services (ABCS) is a faith-based nonprofit corporation that provides services to Arizona families and children. These services include: parent aide, foster care services, adoption services, outpatient counseling services, community resource centers and crisis pregnancy services throughout the State of Arizona. The State of Arizona is represented by five regions located in Tucson, Yuma, Phoenix, Bullhead City and Snowflake. The administrative office is located in Tucson.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described below:

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation - ABCS is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. These net assets classifications are described as follows:

Without Donor Restrictions (previously known as "Unrestricted Net Assets") - not subject to donor-imposed restrictions. These net assets may be designated for specific purposes or locations by action of the Board of Directors.

With Donor Restrictions:

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by actions of ABCS to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets - subject to donor-imposed stipulations that they be retained and invested permanently.

Cash and Cash Equivalents - ABCS considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are mostly from State government agencies for services rendered. Accounts receivable are not recorded until the related service is provided. Accounts receivable are stated at the amount management expects to collect. Management provides for estimated uncollectible amounts by providing a bad debt valuation allowance, based on its assessment of the collectability of the accounts. Management provided a bad debt allowance of \$20,000 at December 31, 2022 and 2021.

Promises to Give - Contributions are recognized when the donor makes a promise to give to ABCS that is, in substance, unconditional. ABCS uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No bad debt allowance was provided for 2022 or 2021.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - ABCS carries investments in marketable equity and debt securities with readily determinable fair values at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investments are presented based on a fair value hierarchy as follows:

Level 1 - Quoted prices in active markets for identical assets.

Level 2 - ABCS does not use Level 2.

Level 3 - Unobservable inputs when observable inputs are not available.

Property and Equipment - Acquisitions or donations of property and equipment with a cost in excess of \$10,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. There was \$240,000 of debt financed purchases in 2021.

Donated Property and Equipment - Donations of property and equipment are recorded as contributions at fair market value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in restricted net assets.

Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Support and Revenue - Support and revenue consists mainly of contributions from the public and a contract with the State of Arizona. Revenue from the contract with the State of Arizona is recorded as earned when services are rendered. Contribution revenue is recorded when promised by the donor.

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support whose restrictions are met in the same reporting period are reported as unrestricted support.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by ABCS. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Investment Income and Gains - Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying Statements of Functional Expenses. Directly identifiable expenses are charged to the respective programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services based on a rational estimation method.

Income Tax Status - ABCS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. ABCS will maintain its exempt status as long as its operations continue to comply with Internal Revenue Code. ABCS is not a private foundation. At December 31, 2022 and 2021, ABCS had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns are subject to examination for up to three years from filing.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2022 and 2021, are wholly from the Arizona Department of Economic Security for services provided, net of an allowance for doubtful accounts of \$20,000.

NOTE 3 - PROMISES TO GIVE

At December 31, 2022 and 2021, all promises to give were collected within days of year end.

NOTE 4 - INVESTMENTS

Level 1 fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions in major exchanges.

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 4 - INVESTMENTS (Continued)

Fair values of investments measured at December 31, 2022 are as follows:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Money market funds	\$ 3	\$ 3	\$ 20,973	\$ 359,992
Equities			298,622	191,963
Fixed income			736,184	567,788
Mutual funds			125,914	148,857
	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$1,181,693</u>	<u>\$1,268,600</u>

Fair values of investments measured at December 31, 2021 are as follows:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Money market funds			\$359,992	\$359,992
Equities	\$86,451	\$86,451	191,963	191,963
Fixed income			567,788	567,788
Mutual funds			148,857	148,857
	<u>\$86,451</u>	<u>\$86,451</u>	<u>\$1,268,600</u>	<u>\$1,268,600</u>

Investment income consisted of the following:

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 12	\$ 8,317	\$ 10,696	\$ 6,260
Investment expenses	(216)		(150)	(300)
Realized (losses) gains	(7,921)	66,262	8,953	4,447
Unrealized losses gains	<u>(110,808)</u>	<u>(67,514)</u>	<u>(105,896)</u>	<u>102,674</u>
Net investment income	<u>\$(118,933)</u>	<u>\$ 7,065</u>	<u>\$(86,397)</u>	<u>\$113,081</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2022</u>	<u>2021</u>	<u>Lives</u>
Land	\$ 905,000	\$ 905,000	
Buildings and improvements	4,126,047	4,126,047	10 - 30
Furniture and equipment	72,387	72,387	3 - 7
Vehicles	<u>180,678</u>	<u>180,678</u>	5
	5,284,112	5,284,112	
Less accumulated depreciation	<u>(1,017,364)</u>	<u>(868,768)</u>	
	<u>\$4,266,748</u>	<u>\$4,415,344</u>	

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 6 - BENEFICIAL INTERESTS IN A TRUST

Irrevocable Remainder Trusts - Unrestricted

In 2006, a revocable remainder trust naming ABCS as a remainder beneficiary became irrevocable due to the death of the donors. Under that trust document, ABCS will receive the remaining trust principal after the death of the income beneficiaries. The fair value of the remaining trust principal is estimated based on the future fair value of the trust assets, less payments to income beneficiaries, computed to a present value. Based on the income beneficiary's life expectancy and the 5.2% and 1.52% discount rates for 2022 and 2021, required by Internal Revenue Service rules, the present value of the future benefits expected to be received under this trust is estimated at \$110,153 and \$220,961 at December 31, 2022 and 2021, respectively.

Fair values of the assets in the above noted trust at December 31 are as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Fair Value</u>	<u>Level 1</u>	<u>Fair Value</u>	<u>Level 1</u>
Cash and equivalents	\$ 2,253	\$ 2,253	\$ 13,999	\$ 13,999
Equities	104,575	104,575	100,872	100,872
Fixed income	3,325	3,325	106,091	106,091
	<u>\$110,153</u>	<u>\$110,153</u>	<u>\$220,962</u>	<u>\$220,962</u>

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED

A. Interpretation of Relevant Law

The Board of Trustees of ABCS has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ABCS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ABCS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ABCS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization

Arizona Baptist Children's Services

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

B. Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires ABCS to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2022 or 2021.

C. Return Objectives and Risk Parameters

ABCS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. ABCS expects its endowment funds, over time, to provide an average rate of return of 5 percent annually. Actual returns in any given year may vary from this amount.

D. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ABCS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ABCS targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

E. Spending Policy and How the Investment Objectives Relate to Spending Policy

The Carnes Fund specifically provides that 85% of the income may be distributed each year. ABCS under the Smithey/Tulsa Fund distributes funds up to a 5 percent spending policy. Funds received under this policy are unrestricted.

Fair values of endowment investments are listed under Note 4 Investments. Changes in endowment net assets are as follows:

	<u>2022</u>	<u>2021</u>
Beginning of year	\$1,268,600	\$1,155,818
Contributions		
Investment (loss) income	(86,397)	113,081
Appropriation of endowment assets for expenditure	(510)	(299)
End of year	<u>\$1,181,693</u>	<u>\$1,268,600</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE 7 - ENDOWMENT FUNDS – PERMANENTLY RESTRICTED (Continued)

The endowment funds consist of:

	<u>2022</u>	<u>2021</u>	<u>Distribution</u>
Carnes	\$ 301,334	\$ 359,531	85% of income
Wade	7,628	8,877	Income paid quarterly
Smithey/Tulsa	<u>872,731</u>	<u>900,192</u>	Up to 5%
	<u>\$1,181,693</u>	<u>\$1,268,600</u>	

NOTE 8 - LEASES

ABCS leases various operating facilities mostly under the provisions of month-to-month lease agreements. Future minimum rental payments are not material. Rental expenses under the terms of the operating leases totaled \$62,000 and \$59,000 for 2022 and 2021, respectively.

NOTE 9 – OTHER INCOME (LOSS)

Other income consists of the following for 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in value of split-interests	\$(110,808)		\$(110,808)
Investment income, net	<u>(8,125)</u>	<u>\$(86,897)</u>	<u>(94,522)</u>
	<u>\$(118,933)</u>	<u>\$(86,897)</u>	<u>\$(205,330)</u>

Other income consists of the following for 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Change in value of split-interests	\$(19,308)		\$(19,308)
Investment income, net	<u>7,065</u>	<u>\$113,081</u>	<u>120,146</u>
	<u>\$(12,243)</u>	<u>\$113,081</u>	<u>\$100,838</u>

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NOTE 10 - CONCENTRATIONS

ABCS received 39% and 51% of its support and revenue for 2022 and 2021 from State of Arizona contracts. If these contracts were modified, reducing or eliminating these revenues, ABCS's finances could be materially adversely affected.

Financial instruments that potentially subject ABCS to concentrations of credit risk consist principally of cash in banks. ABCS usually limits the amount of credit exposure to any one financial institution by not exceeding federal deposit insurance amounts. At December 31, 2022, ABCS had no deposits in excess of federal deposit insurance.

NOTE 11 - RETIREMENT PLAN

ABCS employees are included in a multi-employer defined contribution retirement plan established by the Southern Baptist Protection Program, Convention Annuity Plan. Employees may participate in the Plan immediately upon employment. Employees may make an elective salary deferral up to the maximum allowed by law. ABCS matches the employee's elective salary deferral up to 3 percent after one year of employment. Employer contributions were \$33,300 and \$31,900 for 2022 and 2021, respectively.

ABCS directors are eligible to participate in a deferred compensation plan established by the Southern Baptist Convention. Directors may make an elective salary deferral up to the maximum allowed by law. ABCS matches the director's salary reduction up to 4 percent. Employer contributions were \$27,000 and \$25,200 for 2022 and 2021, respectively.

NOTE 12 – LONG-TERM DEBT

During 2021, ABCS purchased an administrative office for \$240,000. The seller is carrying back the note in the amount of \$240,000, interest rate 0%, 120 monthly payments of \$2,000. Principal portions for each of the next five years is \$24,000 per year and thereafter \$64,000.

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NOTE 13 – INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

ABCS has significant exchange contracts with the State of Arizona requiring sufficient cash until the billed receivables are collected. ABCS also receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. ABCS manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. ABCS has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. ABCS has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended December 31, 2022 and 2021, the level of liquidity and reserves was managed within the policy requirements.

	<u>2022</u>	<u>2021</u>
Total financial assets	\$1,766,528	\$2,302,357
Donor-imposed restrictions:		
Cash	(20,973)	(359,992)
Investments	<u>(1,160,720)</u>	<u>(908,608)</u>
	<u>\$ 584,835</u>	<u>\$1,033,757</u>

NOTE 14 – PAYCHECK PROTECTION PROGRAM

For 2021, ABCS was granted a loan pursuant to the Paycheck Protection Program (“PPP”) under the CARES Act. Principal and interest were forgivable after a 24-week period as long as ABCS used the funds for eligible purposes, including payroll, benefits, rent, debt payments, interest and utilities, and maintained its payroll levels. ABCS met the criteria for forgiveness and its application for forgiveness was approved. The forgiven amount is recorded as support and revenue on the Statement of Activities as Paycheck Protection Program.

NOTE 15 - SUBSEQUENT EVENTS

ABCS did not have any subsequent events through May 16, 2023, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2022.